CITY OF FLAGSTAFF, ARIZONA SINGLE AUDIT REPORT PACKAGE JUNE 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on Compliance and Other Matters and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards	1-2
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Findings and Questioned Costs	5
Schedule of Expenditures of Federal Awards	6-9
Notes to Schedule of Expenditures of Federal Awards	10-12

Bruce J. Nordstrom, CPA

Godfrey C. Loper, Jr., CPA

Marjorie T. McClanahan, CPA

Timothy D. Hansen, CPA



American Institute of Certified Public Accountants Arizona Society of Certified

Member

Arizona Society of Certified
Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of the City Council City of Flagstaff, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 7, 2005. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such as opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

Nordstrom & associates, P.C.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated October 7, 2005.

This report is intended for the information and use of the audit committee, management, others within the organization, the city council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Flagstaff, Arizona

MEMBER

(VII.3101.6

American Institute of Certified Public Accountants

Arizona Society of Certified Public Accountants



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council City of Flagstaff, Arizona

Compliance

Bruce J. Nordstrom, CPA

Godfrey C. Loper, Jr., CPA

Timothy D. Hansen, CPA

Marjorie T. McClanahan, CPA

We have audited the compliance of City of Flagstaff, Arizona (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

Nordstrom & associates, P.C.

We have audited the financial statements of the governmental activities, business type activities, each major fund, and aggregate remaining fund information of the City as of and for the year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Flagstaff's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the audit committee, management, others within the organization, the city council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Flagstaff, Arizona

CITY OF FLAGSTAFF, ARIZONA SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2005

Summary of Audit Results

- 1. The auditor's report expresses a qualified opinion on the basic financial statements of City of Flagstaff, Arizona due to the implementation of Governmental Accounting Standards Board Statement No. 40.
- 2. No reportable conditions were disclosed during the audit of the basic financial statements.
- 3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
- 4. No reportable conditions were disclosed during the audit of the major federal award programs.
- 5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
- 6. There are no audit findings relative to the major federal award programs for the City.
- 7. The programs tested as major programs included:

20.106 Airport Improvement Program 97.036 FEMA Public Assistance Grants

- 8. The threshold for distinguishing between type A and B programs was \$300,000.
- 9. The City did qualify as a low-risk auditee.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2004	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005
Department of Agriculture							
Passed through Arizona State Land Department	-						
Cooperative Forestry Assistance	10.664	SFA-2011	\$ 123,750	\$ 51,899	\$ 51,899	\$ 3,735	\$ 3,735
Cooperative Forestry Assistance	10.664	SFA-2021	55,000	24,240	5,646	(10,892)	7,702
Cooperative Forestry Assistance	10.664	02-CA-11031600-023	61,250	4,665	42,187	45,909	8,387
Cooperative Forestry Assistance	10.664	SFA 3002	120,000	•	-	54,030	54,030
Cooperative Forestry Assistance	10.664	SFA 3012	7,000	-	•	2,589	2,589
Cooperative Forestry Assistance	10.664	SFA 4010	15,000	-	-	150	150
Total Department of Agriculture				80,804	99,732	95,521	76,593
Department of Housing and Urban Development Direct Programs:	-	D 00 MO 04 0510	70 (000	51.105		21 200	
Community Development Block Grant/Entitlement Grants	14.218	B-02-MC-04-0510	726,000	51,105	114,751	71,728	8,082
Community Development Block Grant/Entitlement Grants	14.218	B-03-MC-04-0510	758,000	123,279	295,065	188,997	17,211
Community Development Block Grant/Entitlement Grants	14.218	B-04-MC-04-0510	742,000	-	260,780	403,483	142,703
Total Department of Housing and Urban Development				174,384	670,596	664,208	167,996
Department of the Interior Direct Programs:	_						
Bureau of Reclamation	15.Unknown	04-FG-32-0220	34,500	-	~	34,500	34,500
			,	· · · · · · · · · · · · · · · · · · ·		·	
Total Department of the Interior				-	· •	34,500	34,500
Department of Justice Direct Programs: Gang-Free Schools and Communities_Community-	-						
Based Gang Intervention	16.544	2004-JV-FX-0064	45,353	-	34,215	44,432	10,217
Local Law Enforcement Block Grants Program Local Law Enforcement Block Grants Program Local Law Enforcement Block Grants Program	16.592 16.592 16.592	2002-LB-BX-2883 2003-LB-BX-1104 2004-LB-BX-0322	46,286 36,347 14,921	(1,599) (31,590)	(1,599) - 14,921	31,214 3.931	- (376) (10,990)
Subtotal	10.572	2001 22 271 0322	11,721	(33,189)	13,322	35,145	(11,366)
Guototai				(55,107)	1.7,246	22,172	(11,500)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2004	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005
Department of Justice - Continued							
Direct Programs - Continued:	16.607	2001 DVD	0 2 4 4 0	•			_
Bullet Proof Vest Partnership Program Bullet Proof Vest Partnership Program	16.607	2001 BVP	\$ 3,640	\$ -	\$ 4,367	\$ 4,367	\$ -
Subtotal	16.607	2003 BVP	10,005		3,369	3,369	-
Subtotal				-	7,736	7,736	-
Public Safety Partnership and Community Policing Grants	16.710	2003UMWX0012	150,000	55,289	94,585	89,218	49,922
Public Safety Partnership and Community Policing Grants	16.710	2003OMWX0215	77,274	14,789	36,086	23,008	1,711
Subtotal				70,078	130,671	112,226	51,633
Passed through US Attorneys Office, District of Arizona							
Antiterrorism Emergency Assistance Program	16.321	G04-10-PD	20,000	•	-	19,166	19,166
Passed through State of Arizona							
Missing Children's Assistance	16.543	2000-MC-CX-K018	7,950	6,242	7,657	4,385	2,970
Passed through Arizona Criminal Justice Commission							
Byrne Formula Grant Program	16.579	AL-140-04	213,537	54,834	56,600	1,766	-
Byrne Formula Grant Program	16.579	AL-140-05	219,513		125,164	199,390	74,226
Subtotal				54,834	181,764	201,156	74,226
Passed through United Way of Northern Arizona							
Executive Office of Weed and Seed	16.595	2002WSQX0017	58,000	284	284	_	-
Executive Office of Weed and Seed	16.595	2004WSQ40035	50,000	10,860	24,152	39,140	25,848
Subtotal				11,144	24,436	39,140	25,848
Total Department of Justice				109,109	399,801	463,386	172,694
Department of Transportation							
Direct Programs: Airport Improvement Program	20.106	AIP 3-04-0015-21	5,213,792	574	3,292	2,718	_
Airport Improvement Program Airport Improvement Program	20.106	AIP 3-04-0015-21	1,000,000	96,318	191,995	119,815	24,138
Airport Improvement Program	20.106	AIP 3-04-0015-23	3,050,600	443,963	2,795,070	2,351,107	٠,,١٥٥
Airport Improvement Program	20.106	AIP 3-04-0015-24	413,261	,	288,543	367,433	78,890
Airport Improvement Program	20.106	AIP 3-04-0015-25	120,000	•	61,977	120,000	58,023
Airport Improvement Program	20.106	AIP 3-04-0015-26	247,000	-	-	136,422	136,422
Subtotal				540,855	3,340,877	3,097,495	297,473

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2004	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005
Department of Transportation - Continued	<u> </u>						
Passed through Arizona Department of Transportation: Highway Planning and Construction-2003 PL	20.205	TOO 40 40013	¢ 100.000	e 10.577		œ.	
Highway Planning and Construction-2003 PL Highway Planning and Construction-2003 SPR	20.205	T00-49-A0013 T00-49-A0013	\$ 100,000	\$ 19,577	\$ -	\$ -	\$ 19,577
Highway Planning and Construction-2003 SFK Highway Planning and Construction-2004 PL	20.205 20.205	T00-49-A0013	100,000 100,000	4,763	•	24.575	4,763
Highway Planning and Construction-2004 FP. Highway Planning and Construction-2004 SPR	20.205	T00-49-A0013	100,000	75,425 96,429	-	24,575 3,571	100,000
Highway Planning and Construction-2004 STP	20.205	T00-49-A0013	299,667	90,429	-	,	100,000
Highway Planning and Construction-2005 PL	20.205	T00-49-A0013	100,000	-	-	174,778 15,140	174,778
Highway Planning and Construction-2005 FE Highway Planning and Construction-2005 SPR	20.205	T00-49-A0013	205,000	45,551	-	78,692	15,140 124,243
Subtotal	20.203	100-47-20013	203,000	241,745		296,756	538,501
Passed through Arizona Department of Transportation:							
Transit Planning and Research-2004 FTA(12)	20.514	T00-49-A0013	25,803	7,822		17,981	25,803
Subtotal				7,822	-	17,981	25,803
Passed through Arizona's Governor's Office of Highway Safety							
State and Community Highway Safety	20.600	2003-RS-002	43,613	43,339	43,339		
State and Community Highway Safety State and Community Highway Safety	20.600	2003-R3-002 2004-PT-024	23,000	43,337	43,337	22,852	22,852
State and Community Highway Safety State and Community Highway Safety	20.600	2004-AI-005	1,887	- -	-	1,887	1,887
State and Community Highway Safety State and Community Highway Safety	20.600	2004-EM-003	5,100	-	5,100	5,100	1,007
Subtotal	20.000	2004-EW-003	3,100	43,339	48,439	29,839	24,739
Alcohol Traffic Safety and Drunk Driving Prevention							
Incentive Grants	20.601	2004-410-024	10,880	•	2,224	. 2,224	-
Safety Incentive Grants for Use of Seatbelts	20.604	2003-157B-018	12,000	6,032	6,032	-	-
Safety Incentive Grants for Use of Seatbelts	20.604	2004-157B-018	16,000	12,511	10,862	(1,649)	-
Safety Incentive Grants for Use of Seatbelts	20.604	2005-157B-012	9,000	-		6,758	6,758
Subtotal				18,543	16,894	5,109	6,758
Total Department of Transportation				852,304	3,408,434	3,449,404	893,274
Institute of Museum and Library Services Passed through State of Arizona Department of	-						
Library, Archives and Public Records:							
State Library Program	45.310	23-027 231-3-2-(03)	9,600	(7,482)	-	7,482	-
Total Institute of Museum and Library Services				(7,482)	-	7,482	-

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2004	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2005
Environmental Protection Agency Passed through AZ Department of							
Environmental Quality							
Nonpoint Source Implementation Grants	66.460	EV03-0155(09)	\$ 25,000	\$ 9,190	\$ 10,584	\$ 1,394	\$ -
Total Environmental Protection Agency				9,190	10,584	1,394	
·							
Department of Health and Human Services							
Passed through Arizona Governor's Community							
Policy Office:							
Preventive Health and Health Services Block Grant	93.991	Healthy Aging (Aquatics)	2,710	(577)	•	577	-
Preventive Health and Health Services Block Grant	93.991	Healthy Aging (Balance)	3,000	(658)	1,500	2,158	-
Preventive Health and Health Services Block Grant	93.991	Healthy Aging (FUTS)	3,900	-	3,900	3,363	(537)
Total Department of Health and Human Services				(1,235)	5,400	6,098	(537)
Department of Homeland Security							
Passed through AZ Department of							
Emergency and Military Affairs							
Public Assistance Grants	97.036	1581-DR-AZ	403,208	-	-	304,098	304,098
Total Environmental Protection Agency				-	-	304,098	304,098
Total Expenditures of Federal Awards				\$ 1,217,074	\$ 4,594,547	\$ 5,026,091	\$ 1,648,618

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2005

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Amounts presented on the Schedule are recorded in the General, Special Revenue and Enterprise Funds.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2005 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word unknown were used.

Note 3 – Subrecipients

From the federal expenditures presented in the schedule, the City expended the following to subrecipients.

arn A

	CFDA	
Program Title	Number	Amount
Community Development Block Grant	14.218	\$ 692,275

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2005

Note 4 - Pass-Through Grantor's Reference

The following are nonfederal agencies that have passed through federal monies to the City:

Pass-Through Agency	Pass-Through Grantor Number
US Attorneys Office, State of Arizona:	
Antiterrorism Emergency Reserve	G04-10-PD
Arizona State Land Department:	
Cooperative Forestry Assistance	02-CA-11031600-023
Cooperative Forestry Assistance	SFA-2011
Cooperative Forestry Assistance	SFA-2021
Cooperative Forestry Assistance	SFA-3002
Cooperative Forestry Assistance	SFA-3012
Cooperative Forestry Assistance	SFA-4010
State of Arizona:	
Missing Children's Assistance	200-MC-CX-K018
Arizona Criminal Justice Commission:	
Byrne Formula Grant Program	AL-140-04
Byrne Formula Grant Program	AL-140-05
United Way of Northern Arizona:	
Executive Office of Weed and Seed	2002WSQX0017
Executive Office of Weed and Seed	2004WSQ40035
State of Arizona Department of Library, Archives and Public Records:	
State Library Program	23-027 231-3-2-(3)
Arizona Department of Transportation:	
Highway Planning and Construction	T00-49-A0013
Transit Planning and Research - 2004 FTA(12)	T00-49-A0013

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2005

Note 4 - Pass-Through Grantor's Reference, continued

Pass-Through Agency	Pass-Through Grantor Number
Arizona Governor's Office of Highway Safety:	
State and Community Highway Safety	2003-RS-002
State and Community Highway Safety	2004-PT-024
State and Community Highway Safety	2004-AI-005
State and Community Highway Safety	2003-EM-009
Alcohol Traffic Safety and Drunk Driving Prevention	2004-410-024
Safety Incentive Grants for use of Seatbelts	2004-157B-018
Arizona Department of Environmental Quality:	
Nonpoint Source Implementation Grants	EV03-0155(09)
Arizona Governor's Community Policy Office:	
Preventative Health & Health Services Block Grant	Healthy Aging 2010
Arizona Department of Emergency and Military Affairs:	
Public Assistance Grants	1581-DR-AZ